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Golden Trend Petroleum Ltd.

1997 Annual Report

CORPORATE PROFILE

Golden Trend Petroleum Ltd. is a growing public junior oil and gas company with exploration and development operations exclusively in Alberta. The Company was incorporated in April 1994 and began operations in October 1994. During 1997, the Company's third full year of operations, Golden Trend increased its cash flow 87%, production 175% and oil and gas revenues 104%. Golden Trend also changed its focus in 1997 from 100% oil to 80% natural gas / 20% oil.

Golden Trend's Class A shares are listed on The Alberta Stock Exchange under the symbol "GTP.A" and the Warrants are listed under the symbol "GTP.W".

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ANNUAL GENERAL MEETING

The Annual General Meeting of Shareholders of Golden Trend Petroleum Ltd. will be held on June 19, 1998 at 10:30 a.m. at the Bow Valley Club, 370, 250 - 6th Avenue S.W., Calgary, Alberta. All shareholders are invited to attend.

GLOSSARY

boe	Barrels of oil equivalent (10 mcf of gas equals 1 bbl of oil)
boepd	Barrels of oil equivalent per day
bbl	Barrels of oil or natural gas liquids
bopd	Barrels of oil per day
mcf	Thousands of cubic feet
mmcf	Millions of cubic feet
/d	Per day
mstb	Thousands of stock tank barrels
bcf	Billions of cubic feet
NGLs	Natural gas liquids

HIGHLIGHTS

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

	1997	1996	% Change
FINANCIAL			
Oil and gas revenues	**$ 4,058,548**	$ 1,986,304	104.3
Cash flow from operations	**1,529,844**	818,231	87.0
Per Class A share	**0.32**	0.23	39.1
Net income (loss)	**(1,266,446)**	119,409	(1160.6)
Per Class A share	**(0.26)**	0.03	(966.7)
Total assets	**12,728,324**	7,815,334	62.9
Long term debt	**4,385,310**	2,800,000	56.6
Shareholders' equity	**$ 4,745,118**	$ 3,750,839	26.5
Class A common shares outstanding (weighted average)	**4,802,459**	3,597,667	33.5
Class B common shares outstanding	**4,076,520**	4,076,520	—
Present value of reserves at December 31 (discounted at 15% before taxes)	**$ 9,523,400**	$ 9,339,000	2.0
OPERATING			
Capital expenditures	**$ 6,763,120**	$ 3,041,405	122.4
Land holdings (net acres)	**17,130**	10,357	65.4
Drilling Activity			
Gross wells	**6**	4	50.0
Net wells	**4**	3	24.3
Crude oil production			
Thousands of barrels	**57,520**	67,528	(14.8)
Average barrels per day	**158**	185	(14.8)
Average selling price ($Cdn per barrel)	**25.72**	28.89	(11.0)
Natural gas production			
Million cubic feet	**1,277.82**	—	n/a
Average million cubic feet per day	**3.50**	—	n/a
Average selling price ($Cdn per thousand cubic feet)	**1.93**	—	n/a
Average daily production (boe)	**508**	185	174.6
Production exit rate per (boe)	**664**	385	72.5
Proven and probable reserves			
Crude oil (bbls)	**327,000**	733,200	(55.4)
Natural gas (mcf)	**12,327,600**	2,072,700	494.8
Barrels of oil equivalent (boe) - natural gas @ 10:1	**1,559,760**	940,470	65.8
CAPITAL EXPENDITURES BY TYPE			
Land	**$ 43,697**	$ 425,154	
Seismic	**221,563**	355,212	
Drilling and completion	**1,720,939**	1,032,395	
Finding costs	**1,986,199**	1,812,761	
Facilities and equipment	**1,771,376**	672,397	
Acquisitions	**2,907,441**	559,119	
Total on-stream costs	**6,665,016**	3,044,277	
Office equipment	**98,104**	(2,872)	
Total capital costs	**$ 6,763,120**	$ 3,041,405	

Cash flow increased by 87% in 1997.

MESSAGE TO SHAREHOLDERS

1997 represents a significant year for the continued growth of Golden Trend. Production, revenue, reserves and cash flow all substantially increased compared to the 1996 operating period. Reduced prices for oil during 1997 and a writedown of the oil reserves at our Saulteaux and Coutts properties, however, resulted in a $2,912,000 depletion and depreciation of the net book value of our assets, which caused the Company to record a $1,266,466 loss for 1997.

Ian R.D. Clark, *President and Chief Executive Officer* Gary J. Nazar, *Chairman*

The July 1997 acquisition of a 50% interest in the gas-rich Redwater area was the single most important event of the year. With this acquisition, and the subsequent development activity in the area during the balance of 1997, Golden Trend shifted its focus from producing mainly light oil into one which is 80% natural gas / 20% light oil. This change will bode well for our future cash flow as natural gas prices are expected to increase dramatically in 1998.

Over the past three years, Golden Trend has developed a growth strategy, which we believe will continue to add shareholder value. The base components of this strategy are as follows:

- Focus operations primarily in central and eastern Alberta, with 4 to 5 core areas.
- Complete core area acquisitions with development drilling and optimization upside.
- Produce only sweet natural gas and light, sweet oil.
- Maintain high working interests (50% or greater).
- Operate key properties, whenever possible.

Golden Trend continued to increase production in 1997.

The success of this strategy is shown by the 1997 results:

- Revenue increased from $1.986 million in 1996 to $4.058 million in 1997, a gain of 104%.
- Cash flow almost doubled from the previous year, from $818,231 to $1,529,844.
- Cash flow per Class A share jumped from $0.23 in 1996 to $0.32 in 1997.
- Total production increased from 385 boepd at the end of 1996 to 664 boepd at the end of 1997.
- Natural gas production averaged 3.50 mmcf per day in 1997.

Activity Review

The Redwater acquisition, completed in July, provided Golden Trend with a 50% interest in, and operatorship of, this partially-developed multi-zone natural gas field. The Company recognized the field needed additional development to maximize its productive capacity beyond the 2.0 mmcf per day (1.0 mmcf per day net to Golden Trend) it was producing in July. We subsequently began an aggressive optimization program to increase production from the existing gas wells, tie-in shut-in wells and drill select locations on the undeveloped lands. In September, a development well at 6-25-57-21W4M was drilled and cased. This well was completed and tied-in in December and averaged 650 mcf per day in the first four months of 1998. Also in the third quarter of 1997, both compressors were upgraded, which substantially increased throughput capacity. Additional work in late 1997 focused on recompleting tied-in wells, improving operating methods and building pipelines to shut-in gas wells. By year end, the Company had succeeded in bringing 4 more wells on production, and increasing gross production to 4.0 mmcf per day (2.0 mmcf per day net to Golden Trend).

At Marten Hills, Golden Trend successfully drilled a second Viking gas well in March. In July, the Company acquired its partner's 10% interest in both gas wells. Golden Trend now owns 100% interest in both wells, which exited 1997 producing a combined 2.65 mmcf per day.

In the first quarter of 1997, our royalty interest in two producing Mannville gas wells at Black Spruce converted to a working interest. The two wells averaged a combined 4.00 mmcf per day when on production in 1997 (net 500 mcf per day to the Company).

At Coutts, Golden Trend drilled an oil well at 6-34-1-16W4, into the same pool as the 3-34 Moulton oil well, which we drilled in late 1996. We also shot a three-dimensional seismic program in the area, which led us to drill a well at 11-34-1-16W4 in December. The 11-34 well was cased as a potential Moulton oil well, but the completion attempt was unsuccessful and it will either be converted into a water disposal well or abandoned. By the end of 1997, net oil production from Coutts was 75 barrels per day from seven wells.

At Saulteaux, the waterflood project on this mature Gilwood oil pool, instigated in the fall of 1996, did not result in the production levels we had anticipated . We had forecasted gross production of 200 barrels per day for 1997, but gross production averaged 80 barrels per day for the year. The poor production results caused a reduction of our January 1, 1998 reserves for this pool by 64% from the previous year, which contributed greatly to our asset writedown for 1997.

Golden Trend has demonstrated a successful pattern for growth and will continue to employ this strategy in 1998.

1998 Activities

At Redwater, Golden Trend plans to drill at least 3 development wells in 1998, complete and tie-in 3 shut-in wells, and recomplete several wells, which should increase gross production from the area to 6.0 mmcf per day (3.0 mmcf per day net to the Company).

Golden Trend took over operatorship of the Saulteaux oil pool, including the waterflood project, on April 1, 1998. With operatorship, we plan to improve operating practices to increase production and reduce operating costs. We are also planning to drill a development well in this area in late 1998.

The Company also plans to drill at least one development well, in late 1998, on lands adjacent to our two producing Mannville gas wells at Black Spruce.

In early 1998, Golden Trend initiated a land acquisition program on its internally-generated natural gas prospects in east-central Alberta. The Company plans to drill at least 4 exploratory wells in 1998 on these acquired Crown lands and other lands acquired through farmin. It is also anticipated that property acquisitions will complement the land acquisition and drilling activity in this area.

Golden Trend is also pursuing acquisition opportunities which meet our criteria of at least 200 boepd of production with further development potential. This would be accomplished through a property purchase or a merger.

CONCLUSION

Our activities during 1997 have provided Golden Trend with a solid foundation for continued growth in 1998. Additional development of the Redwater gas field and other core areas in 1998 will enhance our existing asset base, while acquisition and exploration activities will add new core areas to support Golden Trend's growth. Based on the plans, the Company forecasts it will:

- Average 8.0 mmcf/d of natural gas production and 200 bopd of oil production in 1998.
- Double corporate natural gas production by year end 1998 to 11 mmcf/d.
- Boost corporate oil production by year end 1998 to 300 bopd.

Effective April 15, 1998, Gary J. Nazar resigned as President and CEO of Golden Trend and was appointed Chairman. Ian R.D. Clark was promoted from Vice-President to replace Mr. Nazar as President and CEO. Mr. Nazar was the principal founder of Golden Trend and has been instrumental in the successful growth and direction of the Company for the past four years. He will remain active with the Company as a working Chairman.

In closing, we wish to extend our appreciation to the employees for their commitment, to our shareholders for their continuing support, and to the Board of Directors for their ongoing advice and encouragement. We are optimistic the steps taken in the past year to focus Golden Trend's production mix toward natural gas will considerably enhance shareholder value in 1998.

Ian R.D. Clark
President and Chief Executive Officer

Gary J. Nazar
Chairman

April 28, 1998
Calgary, Alberta

Exploration and Development

Laurie Shenstone, *Land Administrator*   Matt McCaffrey, *Operations Manager*   Dieter Kirsch, *Consulting Explorationist*

Redwater Area, Alberta

Redwater gas production increased by 100% in 1997.

In July of 1997, Golden Trend closed the purchase of a 50% working interest in the Redwater gas field located in central Alberta. In the acquisition, the Company obtained 14 cased wells, two compressor stations, 14 miles of pipeline and over 25 sections of land. At the time of acquisition, the field was producing approximately 2.0 mmcf per day (net 1.0 mmcf per day) from 6 wells. Since the closing of the acquisition, the Company drilled a successful development gas well, optimized both compressor stations, recompleted 3 wells and tied-in 3 other wells to increase the gross field production to 4.0 mmcf per day (net 2.0 mmcf per day) from 10 wells.

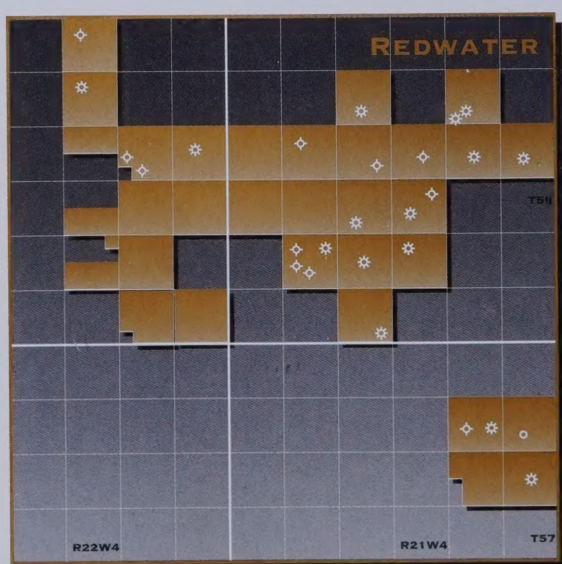
In September of 1997, Golden Trend drilled a development well at 6-25-57-21W4M, which has since been completed as a Glauconitic gas well. The 6-25 well produced an average of 650 mcf per day in the first four months of 1998.

Golden Trend has aggressive plans for Redwater in 1998. We intend to recomplete 3 to 5 wells in uphole zones, drill another 3 development wells, and complete and tie-in 3 shut-in gas wells. In support of this activity, the Company acquired a 50% working interest in a 6.5 section Crown P&NG licence adjacent to the field in January 1998.

With all of this activity, Golden Trend forecasts gross production should increase to 6.0 mmcf per day by the end of the third quarter of 1998 and could be as high as 8.0 mmcf per day by

the end of 1998. The timing of this increase of natural gas production from the Redwater field has been planned to coincide with expected increases in natural gas prices at the end of 1998. All of Golden Trend's Redwater gas production is currently sold to PanAlberta Gas Ltd., and receives their pooled market price.

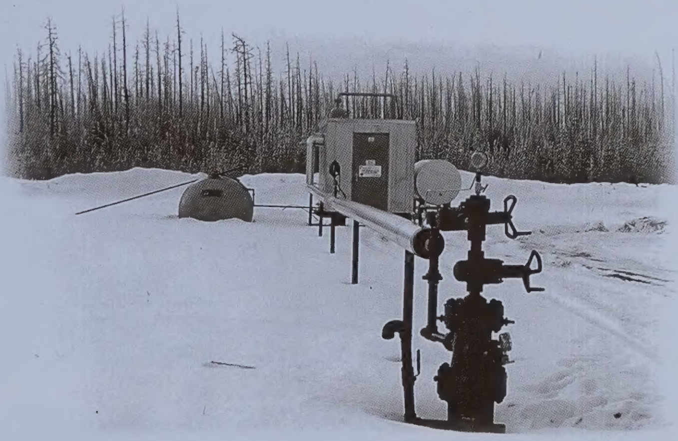
Redwater *8-9-58-21W4*
Compressor Station



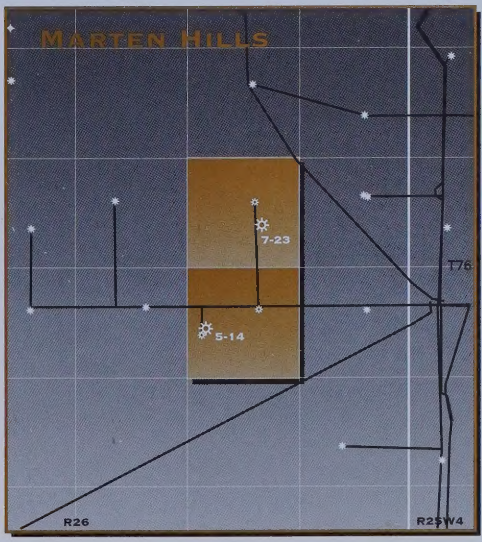
MARTEN HILLS AREA, ALBERTA

As of the end of 1997, Marten Hills was Golden Trend's single largest production area, producing net 2.65 mmcf per day of dry, sweet natural gas. In March 1997, the Company drilled a second Viking gas well at Marten Hills, on its two-section Crown P&NG license. The 7-23-76-26W4M well was drilled into the same Viking gas pool as the previous 5-14-76-26W4M well. The 7-23 well was placed on production in April 1997, and the two wells combined have since produced a steady 2.65 mmcf per day. In July, Golden Trend acquired its 10% partner's working interest and as a result the Company holds an operated 100% working interest in both wells. All of the natural gas produced by the Company at Marten Hills is sold to a major company which also operates the local gathering system and the Marten Hills processing plant. In January 1998, Golden Trend agreed to sell approximately 1.0 mmcf/d from Marten Hills to the major company on a fixed price for a period from April 1, 1998 to March 31, 1999, at a wellhead price of $1.80 per mcf. The balance of the Company's gas production from Marten Hills is sold into the Alberta spot market. Golden Trend continues to evaluate further drilling and acquisition opportunities in the Marten Hills area.

Marten Hills is Golden Trend's single largest producing area at 2.65 mmcf/d.



Marten Hills *5-14-76-26W4*

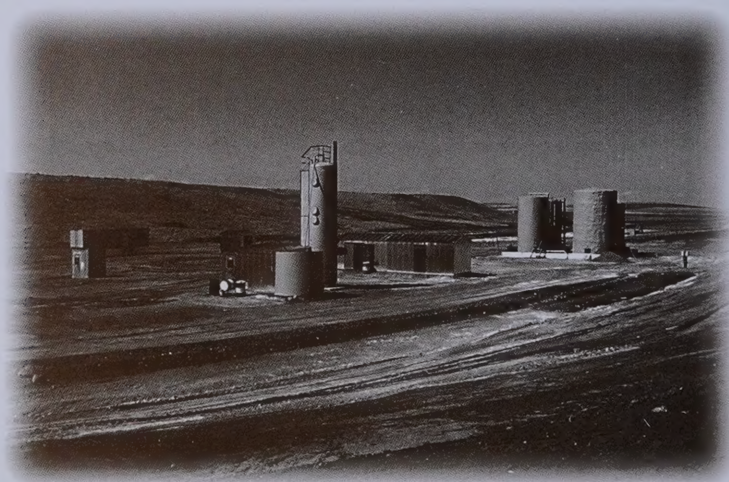


COUTTS AREA, ALBERTA

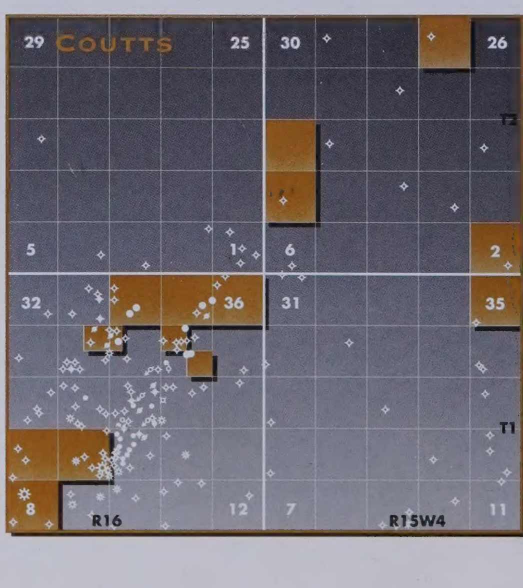
The Coutts area in southern Alberta remains one of Golden Trend's core areas. The primary producing zone in the Coutts area is the Lower Mannville Moulton zone which produces a light (38 degrees API), sweet crude oil. Golden Trend operates 6 producing oil wells in the area, 4 in which it holds a 100% working interest and 2 in which it holds a 65% working interest. The Company also holds a non-operated 37.5% working interest in another producing Moulton oil well. As of December 31, 1997, the 7 wells were producing a combined 75 net bopd.

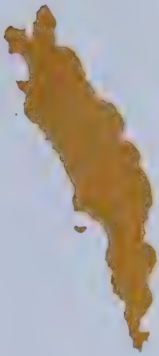
During 1997, the Company drilled 2 wells, a Moulton oil well at 6-34-1-16W4M and a dry hole at 11-34-1-16W4M. The 6-34 well commenced production in June 1997 and was producing approximately 15 bopd by the end of 1997. The 11-34 well was drilled at a location derived by 3D

Golden Trend operates 6 producing oil wells at Coutts.



Coutts *8-35 Battery*





seismic shot by Golden Trend over the north half of Section 34 in September 1997. Unfortunately, the Moulton feature which was interpreted from the 3D seismic was low and wet at the 11-34 location. The Company has no further drilling plans for the North half of Section 34.

Golden Trend is continuing to evaluate other development drilling, optimization, and acquisition opportunities in the Coutts area; including the possibility of a water injection scheme on one of our pools and the creation of a small cogeneration facility using gas supply from our two shut-in gas wells.

Mitsue (Saulteaux) Area, Alberta

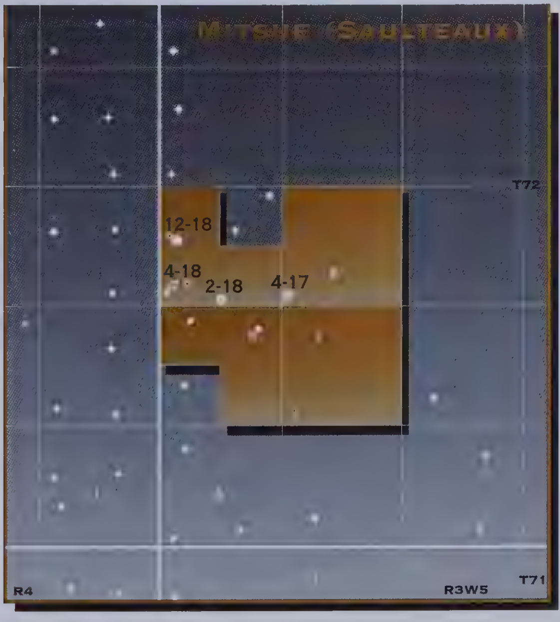
Saulteaux averaged 34 bopd in 1997.

Gross production from the Gilwood light oil pool at Saulteaux was down in 1997, from the expected 200 bopd, to approximately 80 bopd. Golden Trend's 42.9% working interest in the production sharing agreement created for this pool resulted in our average net production being 34 bopd. The 3 producing oil wells in the pool were to have been supported by a water injection well located at 4-18-72-3W5M, however, the waterflood has not been effective to date.

The partners in this pool have agreed to allow Golden Trend to assume operatorship of this pool on April 1, 1998. The Company plans to investigate several different options to increase production and reduce operating costs, including drilling another Gilwood well and the conversion of one of the current producers into a water injection well.

Recent natural gas drilling activity in the area may also result in Golden Trend drilling a Mannville gas test on our lands in the area in 1998.

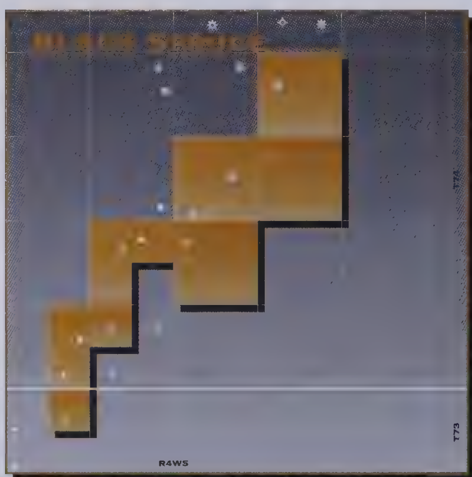
Saulteaux *4-17-72-3-W5*



Mitsue (Black Spruce) Area, Alberta

The Company originally acquired an interest in this area in 1995 for Gilwood oil production. Although the Gilwood oil pool has since been suspended, the Company is producing approximately 500 mcf/d net from 2 Mannville gas wells. These two gas wells, located at 8-15 and 12-23 in 74-4W5M, are operated by a major oil company which also operates the local gathering system and processing plant.

Golden Trend has identified at least one further Mannville gas location on our lands in the area which will probably be drilled in late 1998. The Company holds an average 12.2% working interest in the Mannville natural gas rights in the area.



Chedderville Area, Alberta

The Chedderville Viking "A" Unit has continued to increase its production from the 1996 levels. In September of 1997, the unit reached its production goal of 1,500 boepd, of which approximately 80% was light oil and 20% was natural gas and natural gas liquids. The waterflood of this Viking pool is performing as expected and will likely require some additional capital for new injection wells in 1998. Golden Trend holds a sliding scale overriding royalty on one of the tracts in the unit, which is convertible to a 2.23% working interest in the unit. At the time of writing, we were awaiting a payout notice.

LAND HOLDINGS

(Acres)

	Undeveloped		Developed		Total	
	Gross	Net	Gross	Net	Gross	Net
1997	15,400	7,723	22,308	9,407	37,708	17,130
1996	9,024	4,268	14,003	6,089	23,027	10,367
1995	10,943	2,474	5,764	2,778	16,707	5,252

RESERVE COMPARISON

TOTAL PROVED RESERVES (BEFORE ROYALTIES)

Proved plus probable reserves increased by 66% in 1997.

	January 1, 1998			January 1, 1997		
	Oil	**Gas**	**BOE**	Oil	Gas	BOE
Area	**(mstb)**	**(mmcf)**	**(mstb)**	(mstb)	(mmcf)	(mstb)
Black Spruce	**0.0**	**661.6**	**66.2**	15.3	674.4	82.7
Chedderville	**51.4**	**114.4**	**62.8**	63.5	91.0	72.6
Coutts	**84.3**	**203.1**	**104.6**	170.6	0.0	170.6
Marten Hills	**0.0**	**1,833.7**	**183.4**	0.0	1,265.4	126.5
Redwater	**0.0**	**5,144.4**	**514.4**	0.0	0.0	0.0
Saulteaux	**117.5**	**0.0**	**117.5**	372.2	0.0	372.2
TOTAL	**253.2**	**7,957.2**	**1,048.9**	621.6	2,030.8	824.7

TOTAL PROVED PLUS PROBABLE RESERVES (BEFORE ROYALTIES)

	January 1, 1998			January 1, 1997		
	Oil	**Gas**	**BOE**	Oil	Gas	BOE
Area	**(mstb)**	**(mmcf)**	**(mstb)**	(mstb)	(mmcf)	(mstb)
Black Spruce	**0.0**	**661.6**	**66.2**	15.3	674.4	82.7
Chedderville	**77.6**	**172.7**	**94.9**	91.5	132.9	104.8
Coutts	**84.3**	**406.2**	**124.9**	170.6	0.0	170.6
Marten Hills	**0.0**	**2,426.6**	**242.7**	0.0	1,265.4	126.5
Redwater	**0.0**	**8,660.5**	**866.1**	0.0	0.0	0.0
Saulteaux	**165.1**	**0.0**	**165.1**	455.8	0.0	455.8
TOTAL	**327.0**	**12,327.6**	**1,559.8**	733.2	2,072.7	940.5

The Company's proven and probable oil and natural gas reserves were evaluated by independent engineering consultants, Martin Petroleum & Associates, as of December 31, 1997.

Mary Schumann, *Office Manager*

Shonna Spies, *Receptionist*

RESERVES VALUE

($ thousands before income tax at December 31, 1997)	Discount Factor		
	0%	**10%**	**15%**
Proved Reserves	18,253	9,705	8,050
Probable Reserves	10,792	4,023	2,947
Total Proved plus probable reserves	29,045	13,728	10,997
Reduction due to risk	(5,396)	(2,012)	(1,474)
TOTAL after risk	23,649	11,716	9,523

Finding costs dropped by 28% in 1997.

FINDING COSTS

(Natural gas converted on a basis of 10:1)

	1997	1996	1995
Reserves purchased (boe)	**464,473**	80,200	772,552
Reserves drilled (boe)	**246,660**	163,000	105,348
Finding costs ($/boe)	**$8.05**	$11.11	$19.13
Acquisition costs ($/boe)	**$6.26**	$6.97	$3.69
Total on-stream costs ($/boe)	**$9.37**	$12.51	$6.43

Management's Discussion and Analysis

Gary E. Connor, CA, *Chief Financial Officer* Robert K.W. Keith, *Manager of Accounting*

The following discussion of the financial condition and results of operations should be read in conjunction with the financial statements and notes thereto. It offers management's analysis of Golden Trend's historical financial and operating performance based on information currently available. Actual results may vary from estimates and the variances may be material.

Financial summary

	1997	1996	1995
Oil and gas revenues	**$ 4,058,548**	$ 1,986,304	$ 1,323,000
Cash flow from operations	**1,529,844**	818,232	464,511
Cash flow per Class A share	**0.32**	0.23	0.16
Net income (loss)	**(1,266,446)**	119,409	34,257
Net income (loss) per Class A share	**(0.26)**	0.03	0.01
Capital expenditures	**6,763,120**	3,041,405	5,748,068
Long-term debt	**4,385,310**	2,800,000	900,000
Working capital (deficiency)	**$(1,751,793)**	$ (611,489)	$ (523,728)
Class A common shares outstanding	**6,561,638**	4,068,900	3,568,900
Weighted average for the year	**4,802,459**	3,597,667	2,563,686
Class B common shares outstanding	**4,076,520**	4,076,520	4,076,520

Oil and natural gas revenues

Golden Trend's revenue from oil and gas sales (before royalties) increased 104% in 1997 to $4,058,548 from $1,986,304 in 1996. Of this $2,072,244 increase, $2,460,513 was due to increased gas production, whereas oil production decreased $388,269. Golden Trend's oil price declined from $28.89/bbl Cdn to $25.72/bbl Cdn, an 11% decrease. Golden Trend obtained $1.93 per mcf for its natural gas sold during 1997.

OIL AND NATURAL GAS SALES SUMMARY

	1997	1996	1995
Oil and natural gas sales			
Oil sales	$ 1,479,551	$ 1,851,081	$ 1,284,007
Natural gas sales	2,460,513	—	—
Royalty and prospect income	118,484	135,223	38,993
Total	$ 4,058,548	$ 1,986,304	$ 1,323,000
Oil/Gas Ratio %	30 / 70	100 / 0	100 / 0
Average production			
Oil - bbls/d	158	185	145
Gas - mmcf/d	3.5	n/a	n/a
Total - boe/d	508	185	145
Product prices			
Oil - $/bbl	$ 25.72	$ 28.89	$ 25.55
Natural gas - $/mcf	$ 1.93	$ n/a	$ n/a

CASH FLOW FROM OPERATIONS

A variety of factors combined to increase Golden Trend's cash flow from operations by 87% in 1997 to $1,529,844, with cash flow per share increasing over 39% to $0.32 (1996 - $0.23):

- a 104% increase in oil and natural gas revenues
- a 125% increase in royalties
- a 124% increase in operating costs
- a 147% increase in general and administrative costs
- a 32% increase in interest costs

CASH FLOW SUMMARY

	1997	1996	1995
Cash flow	$ 1,529,844	$ 818,232	$ 464,511
Cash flow - $/Class A share	$ 0.32	$ 0.23	$ 0.16
Cash flow - $/boe	$ 8.26	$ 12.12	$ 8.97

The lower cash flow per boe is the result of Golden Trend's shift from being primarily an oil producer to a gas producer. In 1995 and 1996 Golden Trend was 100% oil, whereas in 1997 Golden Trend was 70% natural gas and 30% oil.

Netbacks

Netbacks per boe are based on 185,305 boe in 1997, 67,528 boe in 1996 and 51,786 boe in 1995.

	1997		1996		1995	
	$	**$/boe**	$	$/boe	$	$/boe
Oil and gas revenues	**4,058,548**	**21.90**	1,950,659	28.89	1,323,000	25.55
Royalties	**(809,841)**	**(4.37)**	(359,622)	(5.33)	(214,286)	(4.14)
ARTC	**375,953**	**2.03**	169,940	2.52	85,349	1.65
Operating costs	**(1,277,004)**	**(6.89)**	(570,643)	(8.45)	(427,554)	(8.25)
Total netback	**2,347,656**	**12.67**	1,190,334	17.63	766,509	14.81

Natural gas converted on the basis of 10:1

Netbacks per boe decreased in 1997 as a result of the shift to natural gas, however, royalties and operating costs also decreased on a boe basis. ARTC decreased due to the purchase of Redwater from an above limit company, therefore the production purchased is not eligible for ARTC.

Capital Expenditures

Golden Trend's capital expenditure program in 1997 totaled $6,763,120 compared to $3,041,405 in 1996.

Golden Trend's exploration and development program included:

- land and seismic expenditures of $265,260
- drilling and completion expenditures of $1,720,939
- equipping and facility expenditures of $1,771,376
- core area acquisitions at Redwater and Marten Hills totaled $2,907,441

Capital Expenditure Summary

	1997	1996	1995
Land	**$ 43,697**	$ 425,154	$ 85,200
Seismic	**221,563**	355,212	173,628
Drilling and completion	**1,720,939**	1,032,395	1,756,566
	1,986,199	1,812,761	2,015,394
Facilities and equipment	**1,771,376**	672,397	784,606
Acquisitions	**2,907,441**	559,119	2,851,135
	6,665,016	3,044,277	5,651,135
Office equipment	**98,104**	(2,872)	96,932
	$ 6,763,120	$ 3,041,405	$ 5,748,067

Financing activities

During the year, Golden Trend entered into Private Placement Agreements whereby 2,097,088 (1996 - 500,000) flow-through Class A shares were issued at a price of $1.15 (1996 - $0.50) per share for gross proceeds of $2,411,651 (1996 - $250,000). These shares are subject to hold periods of 1 to 1.5 years.

Depletion and depreciation

Golden Trend follows the full cost method of accounting whereby all costs associated with the exploration for, and development of, petroleum and natural gas reserves are capitalized. Depletion and depreciation is then provided on a unit of production basis on total proved reserves with gas converted to an oil equivalent using the estimated heating content (6 mcf to 1 bbl). Depletion and depreciation in 1997 totaled $2,911,638 compared to $536,271 in 1996. Included in the 1997 provision is $760,000, representing a write-down of assets.

Under Generally Accepted Accounting Principles (GAAP), the Company is required to evaluate the carrying value of its properties against the estimated cash flows the properties' proved reserves will generate at constant prices over their economic life. In performing this ceiling test, the Company used the prices in affect at the end of the year.

Using year end constant dollar prices of $25.98 Cdn/bbl and $1.99 Cdn/mcf, a ceiling test deficiency resulted. This deficiency is the result of lower oil and natural gas prices at year end 1997 compared to year end 1996 and the substantial reduction of the reserve base at Saulteaux and Coutts.

Depletion and depreciation summary

	1997	1996	1995
Depletion and depreciation	**$ 2,911,638**	$ 536,271	$ 354,372
Depletion and depreciation per boe	**15.71**	7.94	6.84

General and administrative expenses

General and administrative expenses increased to $932,339 from $451,668. The increase is the result of the expansion of the Company, as Golden Trend added three people in their operations/land department and one in their accounting department. There was also a general overall increase due to the increased activity level of the Company. Also included in general and administrative expenses is $118,210 of short-term interest relating to the acquisition payable. The acquisition payable was entered into to purchase the Redwater properties. It was initially $1,500,000, at December 31, 1997 there was a balance of $800,000, and at March 31, 1998 the balance owing was $200,000.

The Company capitalized $330,421 of general and administrative expenses in 1997 (1996 - $208,402) as part of petroleum and natural gas properties.

INTEREST EXPENSE

Golden Trend's interest on long-term debt was $216,662 in 1997 compared to $164,481 in 1996. Golden Trend's debt service costs totaled $1.17 per boe compared to $2.43 per boe in 1996. During 1997 the Company capitalized $30,000 (1996 - Nil) in interest directly related to the acquisition of petroleum and natural gas properties.

BUSINESS RISKS

The exploration for and the development and production of oil and natural gas encompasses numerous risks which can affect the financial performance of a company. Competition remains strong and continued success in acquiring preferred producing properties is not always assured. Successful drilling can be elusive whether the target has previously been identified or is of an exploratory nature. By following our strategies as previously outlined, Golden Trend will reduce inherent risks in the exploration and development process.

Auditors' Report

December 31, 1997 and 1996

To the Shareholders

We have audited the balance sheets of Golden Trend Petroleum Ltd. as at December 31, 1997 and 1996 and the statements of income (loss) and retained earnings (deficit) and cash flow for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1997 and 1996 and the results of its operations and cash flow for the years then ended in accordance with generally accepted accounting principles.

Collins Barrow

Chartered Accountants

Calgary, Alberta
April 24, 1998

Balance Sheets

December 31	1997	1996
Assets		
Current assets		
Cash	$ —	$ 83,262
Accounts receivable	1,374,349	280,089
Alberta royalty tax credit receivable	306,186	142,162
Prepaid expenses	56,225	12,500
	1,736,760	518,013
Property and equipment (note 3)	10,991,564	7,297,321
	$ 12,728,324	$ 7,815,334
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	$ 2,688,553	$ 1,129,502
Acquisition payable (note 4)	800,000	—
	3,488,553	1,129,502
Long-term debt (note 5)	4,385,310	2,800,000
Provision for future site restoration costs	109,343	19,645
Deferred income taxes	—	115,348
Shareholders' Equity		
Share capital (note 6)	5,856,507	3,595,782
Retained earnings (deficit)	(1,111,389)	155,057
	4,745,118	3,750,839
	$ 12,728,324	$ 7,815,334

Approved by the Board,

Gary J. Nazar
Director

J.A. Dillabough
Director

Statements of Income (Loss) and Retained Earnings (Deficit)

Years Ended December 31	1997	1996
Revenue		
Oil and gas sales	$ 3,940,064	$ 1,851,081
Less: Royalties	(809,841)	(359,622)
Alberta royalty tax credit	375,953	169,940
Royalty income	118,484	99,578
Other income	767	35,645
	3,625,427	1,796,622
Expenses		
Operating	1,277,004	570,643
General and administrative	601,917	243,266
Interest on long-term debt	216,662	164,481
Depletion and depreciation	2,911,638	536,271
	5,007,221	1,514,661
Income (loss) before income taxes	(1,381,794)	281,961
Income taxes (note 7)		
- current	—	64,058
- deferred (recovery)	(115,348)	98,494
	(115,348)	162,552
Net income (loss)	(1,266,446)	119,409
Retained earnings, beginning of year	155,057	35,648
Retained earnings (deficit), end of year	$ (1,111,389)	$ 155,057
Earnings (loss) per share (note 6[i])	$ (0.26)	$ 0.03

STATEMENTS OF CASH FLOW

Years Ended December 31	1997	1996
Operating activities		
Net income (loss)	$ (1,266,446)	$ 119,409
Add (deduct) items not requiring an outlay of cash		
Depletion and depreciation	2,911,638	536,271
Income taxes (recovery)	(115,348)	162,552
Cash flow from operations	1,529,844	818,232
Net change in non-cash working capital balances	(155,836)	187,027
	1,374,008	1,005,259
Financing activities		
Proceeds on long-term debt	1,585,310	1,900,000
Proceeds on acquisition payable	800,000	—
Issuance of share capital	2,759,021	250,000
Share issuance costs	(247,889)	(14,588)
	4,896,442	2,135,412
Investing activities		
Future site restoration costs	(3,470)	—
Acquisition of property and equipment	(6,763,120)	(3,041,405)
Net change in non-cash working capital balances	412,878	(35,498)
	(6,353,712)	(3,076,903)
Net cash inflow (outflow)	(83,262)	63,768
Cash, beginning of year	83,262	19,494
Cash, end of year	$ —	$ 83,262
Cash flow from operations per share (note 6[i])	$ 0.32	$ 0.23
Fully diluted cash flow from operations per share (note 6[i])	$ 0.30	$ 0.21

Notes to Financial Statements

December 31, 1997 and 1996

1. Company activities

The company's activities are the exploration for and development of oil and gas properties in Canada.

2. Significant accounting policies

(a) Exploration and development costs

The company follows the full cost method of accounting whereby all costs related to the exploration for and the development of oil and gas reserves are initially capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, costs of drilling productive and non-productive wells, together with overhead and interest directly related to exploration and development activities and lease and well equipment. Gains or losses are not recognized upon disposition of oil and natural gas properties unless such a disposition would significantly alter the rate of depletion and depreciation.

Costs capitalized are depleted and depreciated using the unit-of-production method based upon proven oil and gas reserves as determined by independent and company engineers. For purposes of the calculation, oil and gas reserves are converted to a common unit of measure on the basis of their relative energy content.

Costs subject to depletion under the full cost method also include estimated future site restoration costs, net of expected recoveries. This would include the costs of production equipment removal and environmental cleanup based upon regulations and economic circumstances at year end. The current year's provision for future site restoration costs is included in depletion and depreciation expense.

In applying the full cost method, the company performs a ceiling test which restricts the capitalized costs less accumulated depletion and depreciation from exceeding an amount equal to the estimated undiscounted value of future net revenues from proven oil and gas reserves, based on current prices and costs, and after deducting estimated future general and administrative expenses, estimated future removal and site restoration costs, financing costs and income taxes ("cost ceiling").

The amounts recorded for depletion and depreciation of exploration and development costs, the provision for future site restoration and the ceiling test are based on estimated proven reserves, production rates, future oil and natural gas prices and future costs. By their nature, these estimates are subject to measurement uncertainty and changes in these estimates may have a material impact on the financial statements of future periods.

(b) Joint venture accounting

Substantially all of the exploration and production activities of the company are conducted jointly with others and accordingly these accounts reflect only the company's proportionate interest in these activities.

(c) Depreciation

Other equipment is depreciated using the declining balance method at rates of 20% - 30% per annum.

(d) Flow-through shares

Share capital includes flow-through shares issued pursuant to certain provisions of the Income Tax Act (Canada). The Act provides that, where the share issuance proceeds are used for exploration and development expenditures, the related income tax deductions may be renounced to subscribers. Accordingly, these expenditures provide no income tax deduction to the company.

Oil and gas properties and share capital are reduced by the estimated cost of the renounced tax deductions when the expenditures are incurred.

3. Property and Equipment

	1997	1996
Petroleum and natural gas properties including exploration and development thereon	**$ 11,178,672**	$ 6,535,440
Lease and well equipment	**3,348,380**	1,577,004
Other equipment	**193,065**	94,960
	14,720,117	8,207,404
Accumulated depletion and depreciation	**(3,728,553)**	(910,083)
	$ 10,991,564	$ 7,297,321

At December 31, 1997, the cost ceiling of the company's petroleum and natural properties and lease and well equipment was $760,000 less than the capitalized cost of those assets. As a result, the company recorded a write down of $760,000. Due to the existence of unrecognized deferred tax benefits, there was no deferred tax effect for the write down. The write down has been included in the company's current provision for depletion and depreciation.

Future removal and site restoration costs are estimated in aggregate to be $630,000 (1996 - $174,500) of which $93,168 (1996 - $11,270) has been charged to income in the current year.

Undeveloped land included in property and equipment not subject to depletion amounts to $280,878 (1996 - $98,678).

Included in property and equipment at December 31, 1997 are assets with a net book value of $2,596,794 (1996 - $2,616,234) which have no tax base.

During the year, the company capitalized $330,421 (1996 - $208,402) of a total of $932,338 (1996 - $451,668) in general and administrative expenses.

During the year, the company capitalized $30,000 (1996 - $nil) in interest directly related to the acquisition of petroleum and natural gas properties.

4. Acquisition Payable

During the year, the company entered into a short-term secured bridge loan agreement in the amount of $1,500,000. The proceeds were used to assist in financing the acquisition of petroleum and natural gas properties. Interest is payable monthly at a rate of 1% per month (12.68% annualized) and the loan is due on April 30, 1998. The credit facility is secured by a secondary charge on the assets of the company under a promissory note and a general security agreement. The company's long-term debt maintains a primary charge on the assets of the company.

Under the terms of the credit facility, the company issued to the lender 225,000 Class A Shares of the company at a deemed price of $1 per share (note 6[b]). Pursuant to amendments to the secured bridge financing agreement, the company paid extension fees of $15,000 and committed to the issuance of 51,000 Class A Shares at a deemed price of $1 per share subject to shareholder approval to be issued 30 days after the annual general meeting. Should the shareholders fail to approve the share issuance, the company will pay a fee of $51,000 under the extension agreement.

5. Long-term debt

	1997	1996
Revolving production loan	$ 3,700,000	$ 2,800,000
Cheques issued in excess of cash	685,310	—
	$ 4,385,310	$ 2,800,000

Long-term debt consists of a revolving production loan facility to a maximum of $4,600,000 (1996 - $3,375,000), repayable on demand and bearing interest at prime plus 1/2% per annum. The debt is secured by a general security agreement and a fixed and floating charge debenture in the amount of $4,000,000. Due to the revolving nature of the loan, cheques issued in excess of cash at December 31, 1997 have been included in the balance of the facility.

Under the terms of the facility, the company is required to meet certain financial and engineering reporting requirements. Additionally, the company is required to maintain a working capital ratio of not less than 1:1, a debt to equity ratio not to exceed 2:1, and shareholders equity above $3,500,000.

At December 31, 1997, the lender waived certain financial covenants and has indicated that it does not intend to require repayment of the loan in the forthcoming year, therefore, the loan facility has been classified as long-term debt.

6. Share Capital

(A) Authorized

Unlimited number of voting Class A Common Shares

Unlimited number of non-voting Class B Common Shares

(B) Issued

	1997		1996	
	Number	**Stated Value**	Number	Stated Value
Class A Shares				
Opening balance	**4,068,900**	**$ 1,344,271**	3,568,900	$ 1,195,680
Issued pursuant to Private Placement Agreements (note 6[c])	**2,097,088**	**2,411,651**	—	—
Issued pursuant to acquisition payable financing (note 4)	**225,000**	**225,000**	—	—
Issued pursuant to a Private Placement Agreement (note 6[d])	**—**	**—**	500,000	250,000
Stock options exercised	**170,650**	**122,370**	—	—
Reduction in respect of income tax deductions renounced to subscribers	**—**	**(250,407)**	—	(101,409)
	6,561,638	**3,852,885**	4,068,900	1,344,271
Class B Shares				
Opening balance	**4,076,520**	**2,822,520**	4,076,520	3,056,520
Reduction in respect of income tax deductions renounced to subscribers	**—**	**—**	—	(234,000)
	4,076,520	**2,822,520**	4,076,520	2,822,520
		6,675,405		4,166,791
Less: Share issuance costs, net of income taxes of $nil (1996 - $137,513)		**(818,898)**		(571,009)
		$5,856,507		$3,595,782

(C) During the year, the company entered into Private Placement Agreements whereby 2,097,088 flow-through Class A Shares were issued at a price of $1.15 per share for gross proceeds of $2,411,651. These shares are subject to hold periods of 1 to 1.5 years.

In accordance with the terms of the Private Placement Agreements, and pursuant to certain provisions of the Income Tax Act (Canada), the company is required to renounce, for income tax purposes, exploration

Notes to Financial Statements

and development expenditures incurred to holders of Class A Shares in the amount of $2,411,651. During 1997, exploration and development expenditures of $681,640 were incurred and renounced to subscribers. The remaining expenditures amounting to $1,730,011, were renounced to subscribers and must be incurred by the company on or before December 31, 1998.

(D) During 1996, the company entered into a Private Placement Agreement whereby 500,000 flow-through Class A Shares were issued at a price of $0.50 per share for gross proceeds of $250,000. These shares are subject to hold periods of 1 to 1.5 years.

In accordance with the terms of the Private Placement Agreement, and pursuant to certain provisions of the Income Tax Act (Canada), in 1996, the company renounced, for income tax purposes, exploration and development expenditures incurred to holders of Class A Shares in the amount of $250,000.

(E) The Class B Shares are convertible at the option of the company into Class A Shares at any time from December 15, 1997 to December 15, 1999. The fraction of a Class A Share obtained on conversion of each Class B Share will be equal to $1 divided by the greater of $1 or the weighted average trading price of the Class A Shares as calculated at the time of conversion.

(F) Under the terms of the company's incentive stock option plan, the directors may grant options to purchase Class A Shares to directors, officers, employees and consultants.

The following stock options were outstanding as at December 31, 1997.

Number of Common Shares	Exercise Price Per Share	Expiry Date
150,000	$0.68	January 11, 1998
102,000	$0.55	August 16, 1999
30,000	$0.80	February 28, 2000
282,000		

Subsequent to year end, 145,000 stock options were exercised for $0.68 per Class A Share for total proceeds of $98,600. The company advanced to an officer and director $61,200, and to a director $10,200, to exercise the options. The advances have no specified terms of repayment, bear no interest and are secured by the shares issued pursuant to the options exercised.

Additionally, subsequent to year end, the company granted options to certain directors, officers, employees and consultants to purchase an aggregate of 285,000 Class A Shares at a price of $0.70 per share. The options will expire January 21, 2001.

(G) At December 31, 1996, 221,550 Class A Share purchase warrants were outstanding entitling the holder to acquire one Class A Share per warrant for $1.25. During 1996, the company extended the expiry date of the warrants from April 3, 1996 to April 3, 1997. These warrants were unexercised and expired on April 3, 1997.

(H) As at December 31, 1997, 975,000 Class A Shares having a stated value of $195,000 remain in escrow and may not be traded. After December 29, 1997, the escrowed securities are releasable with the permission of the Chief of Securities Administration of the Alberta Securities Commission. The company has applied to have the shares released from escrow, but has yet to receive the required approvals.

(1) Earnings (loss) per share and cash flow from operations per share are calculated based on the weighted average number of Class A Shares outstanding during the year of 4,802,459 (1996 - 3,597,667).

In the calculation of fully diluted earnings (loss) and cash flow from operations per share funds received on the exercise of stock options and warrants is assumed to have earned a 7% return (3.9% after tax) (1996 - 6.5% [3.6% after tax]). The exercise of stock options and share purchase warrants would not be dilutive to earnings (loss). Class B shareholders do not participate in the earnings of the company until conversion into Class A Shares and, therefore, the Class B Shares have not been considered in the calculation of fully diluted earnings per share.

7. Income Taxes

Income taxes differ from the results which would be obtained by applying the combined federal and provincial income tax rates of 44.62% (1996 - 44.62%) to income before income taxes. The difference results from the following:

	1997	1996
Expected income tax provision (recovery)	**$ (616,556)**	$ 125,811
Increase (decrease) resulting from:		
Depletion on non-tax based assets	**201,091**	80,597
Non-deductible crown payments, net of provincial credits	**150,505**	37,813
Resource allowance	**(173,640)**	(83,100)
Deferred tax benefit not recognized	**400,471**	—
Benefit of share issuance costs	**(85,764)**	—
Other	**8,545**	1,431
Income tax provision (recovery)	**$ (115,348)**	$ 162,552

For income tax purposes, the 1996 tax expense is offset by the benefit from deducting share issuance costs. During 1997, the benefit from deducting share issuance costs has not been recognized.

8. Commitment

The company has a rental lease commitment on office premises of $2,567 per month until expiry of the lease on April 14, 1999.

9. Related Party Transactions

During the year, $347,305 (1996 - $237,770) in wages and consulting fees were paid to officers and directors of the company of which $20,940 (1996 - $4,530) has been capitalized as share issuance costs and $113,650 (1996 - $134,249) has been capitalized as exploration and development costs. As at December 31, 1997, accounts payable and accrued liabilities includes $45,000 in bonuses to officers and directors of the company.

NOTES TO FINANCIAL STATEMENTS

10. FINANCIAL INSTRUMENTS

(A) FAIR VALUES

The fair values of financial instruments approximate their carrying value .

(B) INTEREST RATE RISK

The company is exposed to interest rate cash flow risk to the extent that the carrying value of its long-term debt is at a floating rate of interest. The company's interest rate price risk on the acquisition payable is mitigated by the relatively short-term nature of the facility.

(C) CREDIT RISK

The company's maximum credit risk is limited to the carrying value of its accounts receivable.

11. SUBSEQUENT EVENTS

(A) Pursuant to an amendment dated January 15, 1998, to a Prospectus dated November 28, 1997, the company sold 615,800 units of the company at a price of $0.90 per unit for gross proceeds of $554,220. Each unit consists of one Class A Share and one Class A Share purchase warrant ("warrant"). Each warrant will entitle the holder to purchase one Class A Share for $1.00 until expiry July 30, 1999.

The agent received a commission of 8% on the gross proceeds of the offering. In addition, the agent received options to purchase units of the company at $0.90 per unit as follows:

Number of Units	Expiry
50,100	July 30, 1999
11,480	September 5, 1999
61,580	

(B) Subsequent to year end, pursuant to a letter agreement dated March 30, 1998, the company issued a debenture for total proceeds of $200,000. The debenture is convertible at the option of the holder into flow-through Class A Shares at a rate calculated by taking the proceeds divided by the lesser of $0.80 or the ten-day average trading price prior to the conversion plus 5%. The debenture is unsecured, bears interest at a Canadian chartered bank's prime rate plus 2% per annum payable monthly. The debenture is payable within 30 days of written notice from the holder.

Corporate Information

Officers

Gary J. Nazar
Chairman

Ian R.D. Clark
President and CEO

Gary E. Connor, CA
Chief Financial Officer

Richard L. Lyle
Corporate Secretary

Directors

Gary E. Connor, CA

J.A. (Al) Dillabough

George Putnam

J.M. (Jack) Macleod

Gary J. Nazar

M. Ross Orr

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Banker

Alberta Treasury Branches
Calgary, Alberta

Legal Counsel

Milner Fenerty
Calgary, Alberta

Auditors

Collins Barrow
Calgary, Alberta

Transfer Agent and Registrar

Montreal Trust Company of Canada
Calgary, Alberta

Stock Exchange

The Alberta Stock Exchange
Trading Symbols: GTP.A, GTP.W

Website

www.goldentrend.com

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